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The Week in China

For the Week ending

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Review Of The Week's News

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The Week in China

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American Investments In China

Diverse Problems Which Enter Into Matter Of Financial Help For China

By Harold S. Quigley

Of University of Minnesota

The following is the text of an address delivered at the recent Oriental Students Conference held at Taylor Hall, Racine, Wisconsin, in its 1929 sessions.

The subject of my paper is broader than my discussion will attempt to be. When I tell you that American investments in Asia and Australia in 1928 alone were estimated at $1,204,000,000 you will be glad, no doubt, that I have decided to restrict myself to American investments and investment policy in China. I believe that this is justified because it is really only in China—of all the Orient—that the relation of investments to politics involves the problem not only of a strong country's dealings with a weaker state but also that of friction between strong countries competing with each other. This is not to say that American investments in the Philippines, like those of British investors in India, of French in Indo-China, of Dutch in Java and Sumatra, are not important to study in their relations to the policies of those countries toward peoples who desire independence. And it would also be of considerable interest to analyze the channels into which American capital has flowed in the more stable communities of Japan and Australasia. But since I must choose a part of the large field suggested by my topic I am, with your permission, restricting attention to China.

William S. Culbertson wrote in his *International Economic Policies*:

> "The United States since the World War has become an important, perhaps the most important, market for capital. Borrowers, both governmental and private, are turning to us

for funds." (Page 341).

He pointed out also that:

> "The real conquest of the non-European world was not the territorial expansion which took place in the sixteenth, seventeenth and eighteenth centuries—but the investment abroad of the capital of the great western industrial nations in railways, in mines and in other economic ventures which began to open up the less-developed parts of the world. The ramifications of private investment under the guidance of bankers, promoters, and political leaders extend to every quarter of the globe." (Page 343).

Capital, whether in the form of bullion, specie, credit, goods, or services, obviously can be exported only by peoples who possess a surplus of capital. And it may wisely be exported only to peoples whose economic order is sufficiently stable to assure safety and profit to the investor. The ultimate exporter of capital and the ultimate importer is the individual lender or borrower and Mr. Smith in the United States will not buy bonds of the Chinese Government unless assured that Mr. Yen in China is paying taxes and that the taxes are being used, so far as necessary, to liquidate China's indebtedness.

The outstanding fact in the history of capital export to China is the relatively insignificant part that Americans have played in it. It was estimated in 1927 that not more than $150,000,000 of American money was invested in China. Of that sum more than half, say $80,000,000, was in missionary enterprises—residences, schools, hospitals, churches, etc. This apparent inconsistency with American interest in China of over a century and a half requires explanation.

Broadly speaking, the explanation is found in the relative disinterest of the American investing public in opportunities for foreign loans. Without an alert, even aggressive attitude in private circles toward such opportunities a government will not exhibit the initiative necessary to obtain a proportionate share in the development of outside regions. From another angle there is the difficulty which American would-be investors have met in the existence of spheres of interest or influence, set up by European states in which home investments had become relatively unprofitable.

The only important borrower, so far, in China, has been the Chinese government and we may divide its borrowings into 3 classes—(a) to pay off the indemnities laid upon China after the war with Japan; (b) for so-called administrative purposes; (c) for so-called industrial projects, notably the building of railways.

Since China has paid the Boxer indemnity (amounting to 450,000,000 Haekwan taels or $297,000,000 gold) in installments each country's share may be regarded as a loan in class "a" and of the total Boxer indemnity, the American Government would have received $24,440,000 had it not returned approximately $12,000,000 in 1908 and another $6,000,000 in 1925, suggesting that the returned portions be used for educational and other cultural purposes. As a result many hundreds of high-grade Chinese students have attended American colleges and universities upon indemnity fellowships and an excellent college, Tsing Hua, has been built and maintained near Peking.

Americans came close to taking part in the so-called "Reorganization Loan", for administrative purposes, to China in 1913. American bankers collaborated with Europeans and Japanese in making the arrangements but before negotiations were closed President Wilson succeeded Mr. Taft and withdrew administration support from the proposed agreement. Wilson's action was taken upon Secretary Bryan's advice and is partly explained by the fact that the American bankers were insisting upon a monopolistic position. The President's stated objections, however, ran on broader grounds, opposing the general policy of the consortium on account of the degree of control it was demanding over Chinese administration.

It is interesting to analyze the articles of the loan agreement subsequently made in 1913 between the Chinese Government and the leading Far Eastern banks of Great Britain, France, Germany, Russia and Japan, which had, as a matter of course, the approval of their respective governments. The loan was called the "Chinese Government five per cent Reorganization Gold Loan Agreement" and the amount was £25,000,000, shared equally by the five banks. The rate of interest was comparatively low, 5 per cent, but China was guaranteed only 84 per cent of the face value of the loan since the bonds were offered at 90 and the banks took six per cent in commission, bringing the actual interest rate nearly to six per cent.

The loan was secured upon the salt monopoly, a lucrative revenue source. In order to assure that the salt funds would be properly allocated the agreement provided that the Chinese Government would establish a system of foreign supervision over the collection and disposal of the salt revenues similar to that previously created at the command of the powers over the maritime customs administration. Although the salt

revenues far exceeded the amount needed to finance the interest and amortization of the loan it was required that all the salt revenues should be paid into an account in the loaning banks and no money could be obtained by the Chinese Government from the salt account without the signature of a foreign inspector. Nor could any salt be sold without the consent of a foreign inspector. Moreover, if this system failed to work the whole salt administration was to be incorporated with the maritime customs administration, over which foreign control, essentially British control, was thoroughly operative.

A second means of control was that provided in respect to the expenditure of the loan funds. These were to be kept in the loaning banks in Europe and Japan, the Chinese Government receiving 3 per cent interest on the unused portion. As needed they were to be transferred to the bank's representatives in China and to be paid out by them only upon requisitions signed by a foreign director of the Chinese "Bureau of National Loans" and a foreign official of the lending banks.

Finally it may be noted that the Chinese Government agreed to give the consortium an option on any subsequent loans secured on the salt revenue or raised for the purposes indicated in the reorganization loan.

While these measures for foreign control are in our minds it may be opportune to consider together some of their implications. President Wilson declined to endorse American participation in the loan because, as he said, "The conditions of the loan seem to us to touch very nearly the administrative independence of China." He expressed a fear that it might lead to intervention. "The responsibility," he said, "on the part of our Government implied in the encouragement of a loan thus secured and administered is plain enough and is obnoxious to the principles upon which the Government of our people rests. . . . Our interests are those of the Open Door—a door of friendship and mutual advantage. This is the only door we care to enter."

Now let us turn to another state paper, a letter of President Wilson's secretary of state, Robert Lansing, written in 1918 in reply to an inquiry from American banking interests concerning the Government's attitude toward loans to China. Between 1913 and 1918 the World War had been waged and it was not yet over when Mr. Lansing answered the bankers' inquiry. We find him—and we must assume that he spoke for

President Wilson—reversing the policy of 1913 and reverting to that of President Taft. Yet he writes in curiously contradictory paragraphs. At one point he says: "I think that I should say frankly that this Government would be opposed to any terms or conditions of a loan which sought to impair the political control of China or lessened the sovereign rights of that Republic." In another paragraph he declares that: "In order to encourage and facilitate that free intercourse between American citizens and foreign states which is mutually advantageous (this Government) is willing to aid in every proper way and to make prompt and vigorous representations and to take every possible step to insure the execution of equitable contracts made in good faith by its citizens in foreign lands." I say that Mr. Lansing's two statements are contradictory because in the first he disclaims any idea of exerting control over the Chinese Government, in the second he promises energetic action to compel that government to keep its contracts.

Evidently it was possible for one who is generally regarded as a great liberal to come to the conclusion that the participation of this country in negotiations for an international loan to a weak state could, after all, be regarded as reconcilable with American political principles. Mr. Wilson must have decided, after observing the trend of China toward bankruptcy induced by the reckless borrowing of profligate officials, that it was the part of a democratic neighbor government to take a hand in the control of such a country's policy.

The dilemma presented is that of the necessity of adequate security on the one side and of the progress of political freedom on the other. None of us would expect to borrow money from a bank without giving security. Neither may a government; though in the case of governments, as in the case of individuals, the type of security demanded will vary. But none of us is willing to become a slave in order to borrow money. Still less are we willing to allow some one else to sell us into slavery that he may borrow. Where a country's political order is weak or undergoing transformation its credit is poor and the degree of foreign control demanded may well involve reducing it to vassalage. It is an ironical truth that the people and the countries who need money most find it most difficult to obtain it.

This is a dilemma that, like all similar dilemmas, may only be solved by a change of status in the country concerned. When a weak country becomes strong, a divided people united, the dilemma disappears. In the meantime, the answer to the question faced by President Wilson and answered by him in one way in 1913, another way in 1918, wiil be answered by different people in different ways, accordingly as the importance of economic development outweighs in their minds that of political independence or vice versa. It would seem, however, that President Wilson's first stand was truer than his second to democratic ideals. An American citizen cannot consistently sing the praises of this country as the "land of the free" while urging that for China freedom is unimportant mere sentiment, which must be postponed until railways are built, canals deepened and a sound currency established. To be sure our own democracy is largely sentimental. But at least we are controlled by our own bankers, not by foreigners.

But someone will say: "shall China be left without foreign capital, since she get it only by accepting onerous terms?" "Young China," liberal China, has already answered that question in the affirmative. The result is that no Chinese government, liberal or conservative, has recognized the so-called "new consortium" which was formed in 1920 among bankers of this country, Great Britain, France and Japan—later joined by Belgians —and not a cent has been loaned by it. What is the result today? A progressive government sits at Nanking and its influence throughout the whole of China is more extensive than that of any government since President Yuan Shih k'ai died in 1926. The new consortium, especially the American group therein, is prone to pat itself on the back for this situation. But the credit belongs elsewhere—to the much maligned Kuomintang whose agitation against accepting the sort of control that the consortium bankers would have insisted upon frightened the Peking tuchuns and mandarins away from the loan table which might otherwise have been bountifully spread, to their continued enrichment, to the strengthening of their hands against the liberal forces and to the maintenance of civil strife.

In making this last statement, which sounds decidedly critical of consortium purposes, I wish to disclaim any intent to charge the new consortium with improper motives. Certainly it is preferable that the

control that accompanies a loan contract be frankly expressed and openly executed rather than it take the form of secret concessions granted by venal officials. Under either method, however, and whether intended or not, large loans to weak governments amount to a sort of pacific intervention in the domestic politics of the borrowing state. It was well understood in 1913 that President Yuan Shih-k'ai could not maintain himself in power unless funds were available to pay the troops and for other routine functions of administration. During the World War the notorious "Nishihara" loans were made to the extent of $150,000,000 at least to bolster up the decadent tuchuns at Peking. I shall never forget the remark of Dr. Sun Yat-sen, when I visited him in 1923, that the foreign powers had made his efforts at liberalizing and unifying China fruitless by their support of reactionary elements.

It is now time to turn to the third class of loans which the Chinese government, or rather governments, have obtained, loans for industrial purposes, among which those for building railways have been most important. It is in this connection that we must touch upon the "open door" doctrine, one of America's premier tenets in foreign policy.

I must take for granted your knowledge of the events preceding the enunciation of this policy in 1899. They appeared to portend the "break-up" of China and Secretary Hay secured from the powers rather lukewarm approval of his doctrine of equal opportunity for all countries to trade with China. Thirty years before Hay, another American, Anson Burlingame, had negotiated a treaty between this country and China in which the United States disclaimed "any intention or right to intervent in the domestic administration of China in regard to the construction of railroads, telegraphs or other material internal improvements." Even before Burlingame Commodore Kearney, in 1842, had urged that American merchants be given the same privileges to trade through Chinese ports that might be granted to other nations. Thus it may be said that the American gevernment from the beginning of trade relations with China has stood consistently for the right of all merchants to trade on equal terms and for the accompanying right of the Chinese to buy from and sell to foreigners as they might find most advantageous. The climax of this policy was reached at the

Washington Conference of 1921-2 when the open door doctrine was fully stated and agreed to in treaty form.

Our subject is not trade with China but investments in China What, then, has the open door doctrine to do with investments? Simply this, that trade follows investments. For example if a British contractor builds a railway for China he will arrange to have British equipment used. If a French company builds a road the contract will provide for French engines, cars and rails. A Japanese contractor will do likewise, if possible. Replacements, additions, supplies--all will be purchased from the contractor's country. Thus an open door for trade will be of much less value unless it is also an open door for investments.

Unhappily for American investors, but probably unavoidably, Secretary Hay's doctrine recognized the spheres of interest existing in 1899, indeed it made no provision against future spheres. As you know, a sphere of interest is an area, part of a weaker country, in which a stronger country has obtained, usually by use or threat of force, prior rights to assist in developing the area by building railways, opening mines, or furnishing capital for any purpose in which foreign loans are needed. This country has its own spheres in the Caribbean area but it has no spheres in China. Consequently when American corporations sought opportunities in China they bumped against the British Government in the Yantze Valley, the Japanese and Russian Governments in Manchuria and Mongolia, and the French Government in Kuangsi province in south China. Although in 1917 an American company, Siems-Carey, obtained contracts from the Chinese Government for lines totalling 1500 miles it was unable to build any of the lines because of opposition from countries claiming spheres of interest. Mr. J. V. A. MacMurray has written in Foreign Affairs (Vol. 111, p. 420) that the American contractor became puzzled by these claims to spheres, scrutinized the map and somewhat hotly inquired: "Then where in hell is China?" The sphere-holding countries were dogs in the manger since no railways were being built in the regions where the Siems-Carey concessions ran.

On an earlier occasion the American secretary of state, Philander C. Knox, had sought officially to open a way for large American investments in railways in Manchuria and Mongolia. The plan was proposed in 1909 and involved the

taking over by purchase of the Chinese Eastern and the South Manchuria railways, owned respectively by Russia and Japan, by China. The money needed was to be loaned by a syndicate of American, British, Japanese and Russian banker and the syndicate was to operate the railways for a time as well as to build new ilnes. An Anglo-American banking group had obtained a concession to build an important line in Manchuria and this concession was to be thrown into the pool. But the plan failed because of the preference of Russia and Japan to maintain their positions of special advantage which, they feared, the internationalizing of the railways would destroy.

American bankers were successful in 1898 in obtaining a contract to build a very important railway, designed to connect Hankow and Canton. They returned the contract to China, however, in 1905, upon terms very unfavorable to the the latter. It must be admitted that American methods in handling large concessions in China have been dilatory and amateurish. Chinese conditions have not been understood and banking facilities have been inadequate. However, in 1909, due to the strong insistence of President Taft, American bankers obtained a one-fourth share in the so-called Hukuang loan for the building of railways in South China and the bonds representing America's share ($7,500,000) were sold in the United States. On that occasion President Taft wrote to Prince Regent Chun:

> "I have an intense personal interest in making the use of American capital in the development of China an instrument for the promotion of the welfare of China, and an increase iu her material prosperity without entanglement or creating embarrassments affecting the growth of her independent political power and the preservation of her territorial integrity."

The terms of this loan were not such as to establish a rigid foreign control over Chinese admini-tration. It was, however bitterly opposed in the central and southern provinces and is regarded as an important cause of the Republican Revolution of 1911. Most of the funds were dissipated unproductively, only one line, from Wuchang to Changsha being built.

One may point to but three loans, each of $5,000,000, which have been made independently between American bankers and the Chinese government. One of these, made in 1916 by Lee, Higginson and Company, curiously enough without security, has been repaid. Another, of 1916, made by the Continental Trust and Savings Bank of Chicago, remains

unpaid, as does the third, made in 1919, by the Pacific Development Corporation. On both these latter loans the interest also remains unpaid so that on December 15, 1925, each had become an obligation of over $7,000,000. A preliminary agreement was made by an American group of banks in 1910 to loan $50,000,000 principally for reform of the Chinese currency. This was subsequently altered to include British, French and German banks but was never made effective and remains today an unfulfilled project in which the American Government retains its interest. In 1916 the American International Corporation made agreements to loan $9,000,000 gold for improvement works on the Huai River and the Grand Canal but the loans have not been issued. American concerns also have extended credit to various Chinese official agencies, including particularly the Ministry of Communications amounting to several million dollars, much of which is still unpaid. But in comparison with China's total foreign loans which run beyond $1,000,000,000 gold, America's share has been insignificant.

The World War placed in the hands of American bankers a golden opportunity to assert leadership in the financing of China. They sought to use the opportunity by setting up the new consortium and the American Government endeavored to aid them, not only in that move, but by obtaining at the Washington Conference a formal definition of the open door doctrine in which the spheres of interest were rendered obsolete. As Mr. Balfour put it, the unhappy time of spheres of influence was past. There is no such statement in the Nine-power treaty but the spirit of it is found in the clauses providing that no government will support projects of its nationals which tend to create spheres. The solution found was highly satisfactory since it does away with spheres of interest without destroying interests already vested.

The new consortium substitutes for the old sphere of interest "system" a co-operative pooling of all opportunities for financing governmental or quasi-governmental enterprises in China. Five groups of banks, the American, British, French, Belgian and Japanese groups are included. Together they control the greater part of the available loan funds. They agree to divide upon a specified basis all business that may come to them. The only exception is that of enterprises upon which a substantial amount of

development work had been done. Their respective governments have agreed to support them in competition for loan contracts. The consortium is concerned, not with administrative loans but with providing "the capital necessary for a program of economic reconstruction and improved communications." This would include currency and fiscal reorganization as well as railway and port building, municipal planning, etc.

We have noted previously the interest taken by the American government in the revival and revamping of the consortium. We also have observed that the Chinese governments of all political tints have declined to do business with it, presumably because they anticipate that its terms for loans would involve too extensive control provisions. The net result, therefore, of the new consortium's creation has been stagnation in the Chinese loan market.

This brings us to a brief consideration of American investment policy in Manchuria, that immense area of northeastern China in which great natural resources combine with a comparatively small population and a strategic position to create a focal center in world politics. So far the financing of Manchuria has been done wholly by China, Russia and Japan. When the new consortium was organized it was agreed by Japan that Manchuria and Inner Mongolia should be included within the scope of its operations. However, there were certain qualifications set up by Japan as to the right of self-defence and as to specified railway contracts already let. These appear to have assisted to exclude any consortium loans from Manchuria since none has been made. Presumably the consortium could have loaned money in Manchuria, which has been free from civil warfare, without insisting upon severe terms of control and although Manchuria has been practically an autonomous region for several years it is possible that the Peking Government would not have opposed loans there for such constructive purposes as railway building. At any rate the Japanese government has found a way to continue its program of fostering large loans on railway contracts, some of which would normally have come within the consortium agreement. These facts have led some observers to assert that there exists a "gentlemen's agreement" within the consortium to leave Manchurian financing to Japan.

Recently—in October, 1927—a loan of $30,000,000 was under negotiation between J. P. Morgan and Company, the

leading American bank in the consortium, and the South Manchurian Railway, a Japanese line. Although the Department of State at first indicated indifference to the matter, when various Chinese public and private protests were received it announced that although its opinion had not been formally sought it regarded the consummation of the loan as unlikely. Whereupon negotiations were discontinued.

This incident affords an excellent illustration of the extremely delicate problem of the United States in its relations with both China and Japan respecting Manchuria. It cannot overlook Japan's actual position there, yet it must continue to recognize that Manchuria is part of China. Unquestionably the American government desires not to play favorites in the Far East but to keep on equally friendly terms with both China and Japan.

Since June, 1928, the central government of China has been in new hands, those of the Kuomintang or Nationalist Party. This government, while frankly an oligarchy, is attempting as no other government in China ever has attempted, to bring order out of the chaos which a decade and a half of civil warfare has produced. Pertinent to our present topic are the far-reaching plans of the new government for improving communications. They include the building of 100,000 miles of railways, of 1,000,000 miles of macadamized roads, improving canals and rivers, constructing telegraph, telephone and wireless systems, harbor development, the construction of modern cities, water power development, etc., etc. The amount of capital needed for these vast projects is staggering. How is it to be obtained?

Mr. Thomas Lamont, speaking recently before the China Society in New York, said:

> "The situation now is that the Consortium stands ready, as it has heretofore, to listen to any proposals which the Chinese Government may make for co-operation in the building up of great public utilities in China. This by no means implies a promise to lend money to China at the present time. Necessarily a condsiderable period must elapse before the present authorities show by their prudent course that China is entitled to credit from world investors. If and when this period is completed and the fact is made clear then, as I say, the Consortium will, if requested by China to do so, be prepared to lend its co-operation in whatever way may be feasible."
>
> (*Far Eastern Review*, Jan. 1929, p. 7)

Mr. Lamont's statement indicates that American policy continues to favor the handling of large loans to China co-

operatively. While he omits any reference to the view of the new Chinese government it may be assumed that it will be unwilling, like its predecessors, to accept control of its revenue services as the price of large loans.

The United States cannot safely depart from this co-operative policy. Should the consortium be dissolved it is probable that a new era of competitive loans would begin, with great danger of further civil warfare.

During his visit to China recently Deputy Secretary General Avenol of the League of Nations is said to have tried to convince the Chinese Government that it should request supervision of its reconstruction program by the League, attended by financial control similar to that provided for Austria and Hungary. It was understood that the American members of the Consortium would be agreeable to such a plan. But the Chinese rejected it.

At this moment a group of American experts on various aspects of public finance, headed by Dr. Edwin E. Kemmerer, are, at China's invitation, investigating the situation with a view to recommending methods of reorganization. This investigation followed closely upon the gesture of goodwill made by the United States in being the first power to grant recognition to the National Government. It may be supposed that the recommendations of the Kemmerer commission will have great weight with the American Government and American bankers. It is to be hoped that factional strife has indeed ceased in China and that the sterling credit of a splendid people may soon be released from the handicap of tuchunism and be free to operate normally, thus establishing that confidence upon which foreign capital my be loaned with assurance.

Railway Plan For Manchuria

A project providing for the construction beginning this year of five new railways with a total mileage of about 1,000 miles, to facilitate communications in the Three Eastern provinces, has been jointly completed by the various provincial governments concerned, Mukden announces, The proposed new lines are:

1. *Kiutai - Changkiawan Railway*: This line will start at the Kiutai station of the Kirin-Changchun Railway and terminate at the Changkiawan station on the Chinese Eastern Railway with a total mileage of over 27 miles. The proposal to construct this railway was submitted by the Kirin provincial government with the purpose of facilitating transportation between the provincial capital of Kirin and Harbin. Work will be started shortly and all construction expenses will be borne by the Kirin provincial government.

2. *Hsinkingfu-Fushun Railway*: The plan to construct this line was submitted by the Hsinking chamber of commerce which was subsequently approved by the North-Eastern Communications Committee. The line will be a semi-official enterprise and part of the construction expense will be furnished by the Shenyang-Hailun Railway Administration and part to be subscribed by the commercial interests of the two terminal cities. The lengtn of the line will be 40 miles (120 li) and construction is expected to begin in the middle of May following completion of surveying.

3. *Tsitsihar Heiho Railway*: The lack of communicatiou facilities along the Heilungkiang border was keenly felt during the recent Sino-Soviet dispute when Heiho was threatened by Soviet troops. The North-Eastern Communications Committee, therefore, will petition the central government to reserve part of the returned Boxer indemnity for the construction of this 600 mile line. A special representative of the north-eastern authorities will soon leave for Nanking to confer with the ministry of railways relative to the proposed construction.

4. *Kaiping-Fuchow Railway*: The construction of this line was first proposed in 1927 but the project was dropped on account of Japanese participation which was regarded as an infringement of China's sovereign rights. The present scheme is to make the line a semi-official enterprise as the salt merchants in the district will subscribe for all the private shares. A petition for construction of this line will be submitted to the communications committee for consideration immediately after completion of the survey.

5. *Hulan-Holihkang Railway*: This line will start from Hulan and terminate at Holihkang in Heilungkiang. The plan is initiated by the provincial department of reconstruction of Heilungkiang to facilitate the transportation of coal from the Holihkang mines. Construction expenses will be borne by the merchants of Hulan and Payehchow and also the Holihkang mining interests.

Study Of Chinese By Foreigners

The incorporation at San Francisco on January 14 of the "California College in China" totake over the North China Union Language School in Peiping and to facilitate the study of Chinese by students in Pacific Coast universities, is but another step in a new tendency among foreigners in this country.

This is to require that foreign workers be able to converse with the citizenry of this nation in the language of this land, instead of becoming piqued when Chinese misunderstand English.

Only a decade ago only, ridicule would greet the suggestion that diplomats speak Chinese. Now, for the first time, not only members of a legation staff in Peiping, but the minister himself will be able to talk Chinese, when Mr. Nelson Johnson arrives. So far-reaching has been the advance in viewpoint which this represents that the accomplishment is hardly considered a matter for surprise, but is accepted as a normal condition, or at least an example of what should be normal.

Every foreigner in China should be able to make himself understood among the Chinese, even if unable to carry on an extensive conversation. He should be able to express his simple needs. The time is passed when highly intelligent members of important American, British, French and other foreign firms can be satisfied to conduct their businesses through low-paid "secretaries", whose only assets lie in their ability to speak Chinese and to produce "recommendations" as sixth-rate clerks.

If an erroneous impression of foreigners has been obtained in the past by Chinese, much of the blame must go to the inevitable ridiculous light in which visitors to this country have placed themselves by being unable to exist without the medium of another person's tongue.

Competition in this modern economic world is far too keen to permit any one group in China to continue to ignore the certain disadvantage which accompanies inability to speak the native dialect. The "language barrier" is difficult, but not insurmountable. So keen is the race for trade that the added advantage of being able to speak Chinese can no longer be overlooked.

Many of the leading concerns of recent years have added Chinese teachers to their staffs, and made it compulsory for their new employes to study the language. Foreign employes in the postal and customs services have proven themselves able to learn Chinese with a greater or less degree of fluency. This is because it was required as part of the job. The same can become true in ordinary commercial concerns.

This means, however, that the foreigner employed in China who comes out on a short contract, for two or three years of service, afterwards to return home and never to return to China, will decrease materially in numbers in the future. It would be too colossal a waste of mentality to make the study of Chinese compulsory for workers who will only remain here a few years. If the language must be spoken due to the keen business competition, the corollary is that the short-term man must go.

The added requirement of the study of the language among foreigners, however, should not be utilized as an excuse for the retention of involved book-keeping and other similar systems in the old Chinese style, which not only waste a valuable amount of time but necessitate large clerical staffs, with proportionate inefficiency, instead of compact, precise organizat ions.

Chinese must not be encouraged to relinquish the advantage they possess by studing English and other foreign languages, simply because the foreigner has determined to decrease his disadvantage in not speaking Chinese.

The old methods of calculation and conversation in Chinese are far too involved to compete on equal terms with simpler language mediums. There is an enormous task awaiting final solution on all sides.

A NEW DRIVE FOR FAMINE FUNDS

A new drive for famine funds has been started in the United States, this time for Shansi and Shensi provinces, according to a cable received on January 16 from the China Famine Relief in New York. The campaign is being conducted as the result of Mr. Grover Clark's recent investigation tour through several thousand miles of famine territory.

Mr. Clark, a special delegate of the China International Famine Relief Commission, returned with the news that 2,000,000 persons have died during the past year in central Shensi alone, and that 2,000,000 more are doomed. He also revealed the depressing fact that in Shansi province, the big grain-producing belt is sorely stricken by drought.

His recommendation, as stressed in interviews, is that Shansi province, where natural causes for the disaster predominate, should receive the fullest support possible in order to help it pass the successive years of crop failure.

He approves generally of the principle that assistance should be of a remedial rather than an emergency nature, but points out the need for the immediate shipment of seed beans into the stricken Shansi region. This is because seed beans mature rapidly, and will help the province regain its economic equilibrium in the shortest possible time.

As for Shensi province, he declares that 2,000,000 more will die there regardless of what anybody does. The appalling crime of lackadaisical transportation policies is revealed graphically by his revealation that irrespective of what is done—these 2,000,000 in Shansi will perish! If warehouses were standing in Peiping today, and they were filled with wheat and other life-giving grains, most of these 2,000,000 still would die! The grain could not be shipped where it is needed.

What greater impetus should be required to spur China toward actually modernizing its transportation problems—in deed and not merely on paper—than the

realization that several millions of its citizenry are to go to an early grave as starvation victims despite anything that can be done for them!

In Shansi, it is different. This province has been free of warfare, and its only serious drain has been the necessity to help support the troops under General Yen Hsi-shan, which have been instrumental in preventing civil warfare from entering the borders of that region. Now, however, Shansi also is suffering as a result of successive crop failures.

Help can be sent it from the outside, and the cost should not be forbidding. It is in Shansi, therefore, which is not suffering anywhere so acutely as Shensi, rather than in the latter province where assistance is needed more but cannot be sent, that Mr. Clark urges immediete steps be taken for help.

The cable from New York says that the funds are being procured for both Shansi and Shensi. Undoubtedly, the dispensation of the money will be left to the accumulated experience of the China International Famine Relief Commission, and Shansi probably will receive the bulk of the help.

In this respect, it is appropriate to recall the statement of policy made by the C.I.F.R.C., shortly after the adverse report of the American Red Cross had been made public. This policy read:

> 1. The China International Famine Relief Comission urges that as far as possible all funds available for relief work be put into definitely famine preventive undertakings.
>
> 2. Because there are other relief agencies organized and equipped to work along famine prevention lines, the China International Famine Relief Commission will concentrate its efforts on this phase of relief work, though holding itself ready to do direct free relief if the donors of funds specifically so request.

Therefore, it is up to China Famine Relief in New York to decide whether the money is to go for emergency gruel stations or projects which will help make emergency gruel stations useless in the future.

FIRST 10 YEARS OF THE LEAGUE

The League of Nations unostentatiously passed its tenth birthday on January 10. Despite the open cynicism with which the organization was confronted only a decade ago—a ridicule very much the same as that which today is meeting the multilateral pact for the renunciation of warfare--the League of Nations is now accepted as a recognized organ for normal, international relations between nations.

But its role is vastly different than that which was expected by its idealistic parent, Woodrow Wilson. Its work has divided itself into two phases, one world-wide in scope, and the other mainly European. The latter is its political side, which was intended to be international. The former is its social, economic phase, which was considered as secondary, but which is doing more toward fulfilling the peaceful, progressive intentions of the founders of the League of Nations than its other activities.

The League of Nations, politically, has been held fast within the borders of Europe. The Far East and the New World have avoided intimate connections. There have been threats at times in China and Japan of an appeal to the League, but this has always been avoided by means of settlement otherwise.

The same has been true for North and South America. Recently two nations in the latter continent came to blows, exactly as China and Russia fought in Manchuria. The League proferred its assistance, but the nations concerned preferred the Pan-American Union for the role of arbiter.

The reason for the hesitancy by the rest of the world in trusting themselves to the Geneva organization in political questions is simply because of the overwhelming predominence of European nations in the

League, and due to the fact that they cannot bring themselves to place their political problems,—i.e., problems of national life and death,—into the realm of European chancellories and diplomats.

The next decade or so should show whether pre-war Europe has entirely given way to post-war Europe. Then it will be possible to no longer be suspicious of motives, due to sad experience in the past, but to permit true, international political co-operation, to receive a fair trial.

When we take non-political phases of international relations into consideration, however, it is a different story. There the entire world joins in the work of the League. The success of the organization outside of the borders of Europe has been entirely in its non-political activities.

This, fundamentally, is fortunate. The political phases of life in this modern world are not as important as the social, economic sides of existence. Here the League is busily chiseling an endurable monument of achievements for itself. Its technical organizations, although far less interesting and sensational than politics would be, cover numerous fields of activities,—financial, economic, communications, transit, health, intellectual co-operation, suppression of opium and harmful drug traffic, protection of women and children, tariff and calendar problems, suppression of the white slave traffic, world-wide abolition of slavery, and the codification of international law.

The League therefore, although not as busy as it hoped to be in political issues, is very hard at work on the task of raising the standard of living of the entire world and in creating an "international mind."

This is as it should be. More endurable achievements can be attained in this way than by any other,

E. W. H.

Review of The Week's News

Gold vs. Silver

The first step toward a gold standard for China was taken at Nanking on January 15, when the inspector-general of customs was instructed to collect import duties on a gold basis beginning February 1. This is the aftermath of the slump in silver currency.

Mr. T. V. Soong, finance minister, said this action was necessary because otherwise China would be unable to satisfy her foreign loan obligations which are secured on the customs revenue. He pointed out that this country pays £9,000,000 annually. At the present silver levels, he said this would mean an excess in taels of 60 per cent compared with 1925 and 20 per cent compared with last year.

In converting the specific rates to gold, the average rate of exchange for the last three months of 1929 will be used from February 1 to March 16, after which the approximate rate for January would rule.

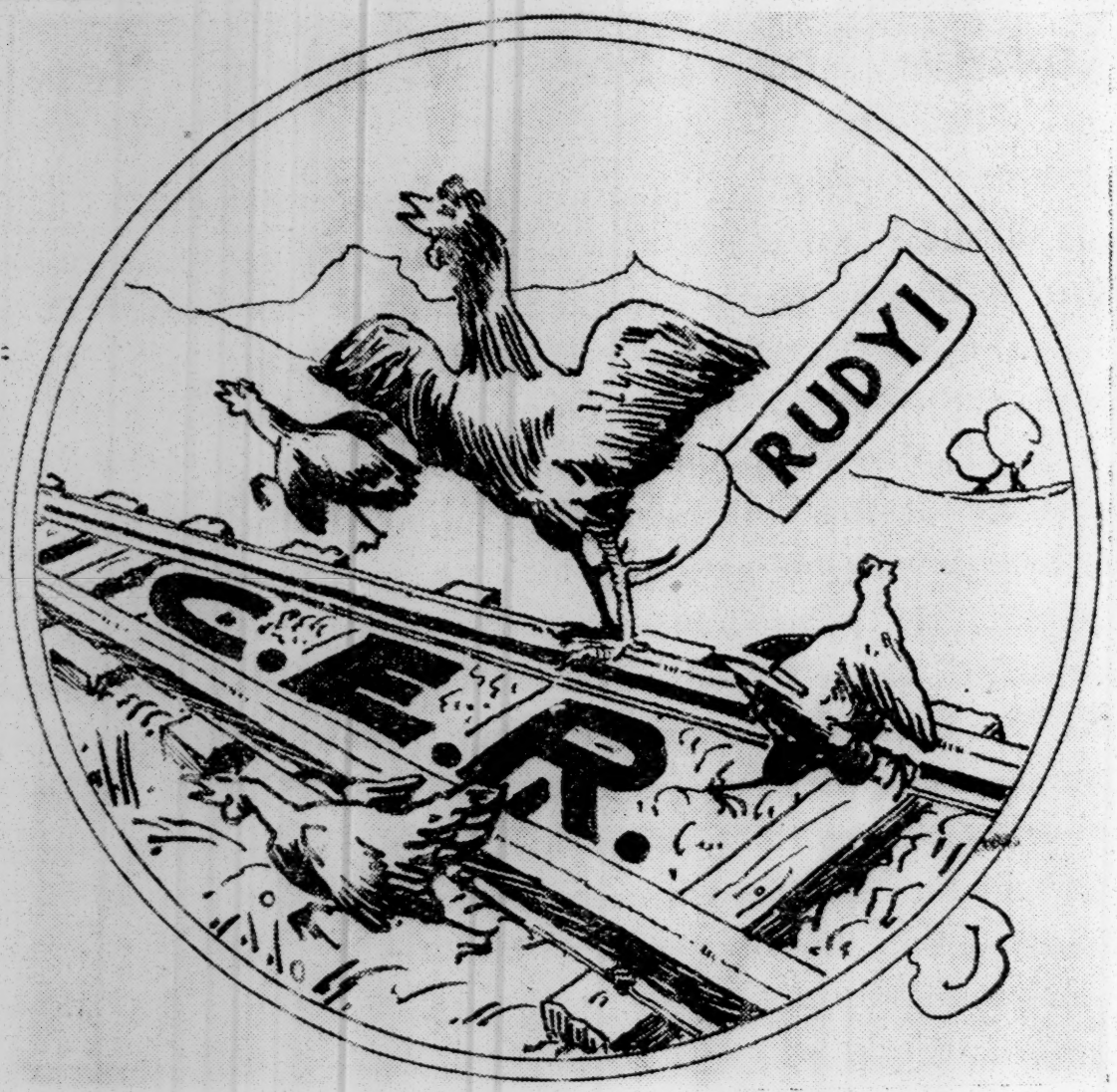
After February 1, the Haikwan tael would discontinue as a unit of calculation and the gold unit be used instead. This new unit would be equal to 60.1866 centigrams of pure gold, equivalent to 40 gold dollar cents, 19.7265 pence or .8025 gold yen.

From February 1 to March 15 the conversion will be one Haikwan tael equal to 1.50 of the new unit, and beginning March 16, one Haikwan tael equal to 1.75 of the new unit.

The statement by Mr. Soong also declared that as heretofore, taels and other currencies would be received, and the rates will be announced from time to time, at least three days notice being given of change in rates.

Gold Standard

China will adopt a gold standard within the shortest possible time, declared General Chiang Kai-shek at a memorial service for Dr. Sun Yat-sen at Nanking on January 13. He declared the cause of the silver slump was speculation by Chinese merchants, enabling foreigners to manipulate the gold rate.



"The cock of the walk!" News despatches tell of Mr. Rudyi using the "big stick" in his new job as Soviet general manager of the Chinese Eastern Railway, discharging on his own authority all Chinese employed since the coup.

He suggested (1) prohibition of gold speculation, (2) increase of national revenue by enforcement of the statutory tariff, and suppression of the circulation of foreign bank-notes to prevent foreigners from controlling the money market.

The government is able to enforce the statutory tariff, but the circulation of foreign banknotes depends on the people, he said.

Likin Taxes

The national government has issued a mandate stating that beginning September 10, the obnoxious likin and other irregular taxation in the interior of China will be abolished.

This is expected, if fulfilled, to remove the final barrier to complete tariff autonomy in China. The government promised

to abolish the interior taxes upon regaining its tariff rights.

Opium

A sensational bandit raid took place on the Jardine & Matheson steamer *Tuckwo* at Chinkiang, on the Yangtze River, on January 16. The loot was 400 pounds of opium. The gangsters posed as water police, and in a consequent exchange of shots, one passenger was slain and another shot through the lungs.

Sir Miles Lampson, British minister, had postponed his departure on this vessel at the last minute. Mr. E. Teichman, Chinese secretary of the British legation, was aboard, and acted as interpreter between the pirates and the captain.

Seven thousand catties of opium were seized on the British steamer *Ta Tung* on January 13, when she arrived at Shanghai from Hankow, according to the vernacular press. The value of the seized narcotics was set at M. $125,000.

The League of Nations opium traveling commission reached Hongkong on January 13. It was expected the committee would remain three weeks, after which it would visit Macao and Manila.

C.E.R. Pact Opposed

Agitation against the Chinese Eastern Railway protocol signed at Harbarovsk is spreading in China Proper. The agreement was placed on its list by the association for the abolition of unequal treaties at Shanghai.

A *Rengo* despatch from Harbin, sent via Tokyo, said that Mukden had been informed by Nanking that the Chinese government would repudiate the Harbarovsk protocol. The reason given was that Mukden had acted *ultra vires*.

Mr. Tsai Yun-sheng, who signed the protocol, issued a statement in Mukden denying that there were any secret provisions. The official text is in the hands of the political committee of the Three Eastern Provinces, and a copy was sent to the Waichiaopu, he declared.

Mr. Mou Teh-hui, China's plenipotentiary to the Moscow conference scheduled to be held in accordance with the provisions of the protocol, has been ordered to go to Nanking first.

He was expected to arrive at Mukden on January 18 and consult with Marshal Chang Hsueh-liang, after which he is expected to proceed to the capital.

C.E.R. Service

The Peiping agents of the Chinese Eastern Railway began during the past week to resume placing passenger reservations for through traffic via Mukden, Harbin and Manchuli. The postoffice in Peiping on January 18 announced that mail matter for Europe again was being sent via Harbin, but that pending the resumption of a direct service through Manchuli, the mail matter would be sent from Harbin via Suifenho. It was expected the through service would be available in a few days, the announcement said. The date is expected to be January 22.

Rudyi's Edict

"Big stick" tactics are being reported from Harbin, where Mr. Rudyi, Soviet general manager, has assumed his post on the C.E.R. Despatches said that on his own authority he issued an order that all Chinese employes hired since the July 10 coup be discharged.

On January 11 and 12, according to *Reuter*, 314 men were dropped from the Harbin workshops and work was brought practically to a standstill pending the return of the men dismissed on July 10. Considerable feeling was reported among Chinese at Harbin over these drastic steps.

On January 13, the first trains from Vladivostok and Manchuli reached Harbin. They brought new Russian employes. A *Rengo* despatch that day said that the Chinese delegation to Moscow would consist of Mr. Mou Teh-hui, Mr. Li Shao-keng, Mr. Chung Yu (foreign commissioner of Kirin), Mr. Chang Shou-tseng (foreign commissioner of Tsitsihar), and Mr. Wang Chao-chuan. Dr. Wellington Koo's name was conspicuous by its absence.

The Russians are endeavoring to regain control of the various departments which were divorced from the C. E. R., such as the observatory, library, telegraph and telephone bureau. The shipping department but no ships were handed over to the railway.

Despatches said the Chinese workmen were talking strike as a result of the wholesale dismissals.

Mutiny at Macao

An abortive revolt took place in Macao, Portuguese possession on the China coast, just before Christmas, and details are being revealed. Between 60 and 70 artillerymen, headed by a sergeant, mutinied and demanded higher pay.

The conspiracy, in which other forts had been expected to join, fizzled, however. They were bombarded for half an hour by artillery and machine guns, but no one was killed, and the city not damaged.

They all surrendered unconditionally. Damio Rodrigues, former chairman of the municipal council, and Jose Almeida, former secretary, were exiled to Timor for 14 months and 8 months respectively.

Truce for Panchan Lama

A Chinese report at Shanghai declares that a truce has been arranged between the Panchan Lama and the Dalai Lama. The Panchan Lama as a result finally will return to Thibet, according to this source.

The dispute between the two has been of several years duration. It led to the Panchan Lama's departure from Thibet in 1924. The Dalai Lama takes charge of temporal matters in Thibet, and the Panchan Lama is recognized there as the spiritual head of the Buddhist church.

Naval Conference

Stupendous interest is being shown by Japan in the forthcoming five-power naval conference at London. Every move of the Japanese delegation has been cabled in full to the Japanese press, and then many of the details telegraphed by the Japanese news services to China.

Keen attention also is being shown in the actions of the American and British delegates.

The Tokyo central broadcasting station has made preparations to broadcast the speech of King George, who will open the momentous parley.

Japan's appeal for a 10-10-7 ratio in navies is the subject of enormous press comment in Japan. Mr. Ramsay MacDonald's statement to pressmen on January 15, proposing the eventual abolition of the capital ship, was cabled verbatim to Japan.

E. W. H.

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